Bachus: AIGâ€™s Disparate Treatment Of U.S. Regional Banks Must Be Examined

WASHINGTON - Congressman Spencer Bachus, the top Republican on the Financial Services Committee, requested information from Treasury Secretary Tim Geithner regarding the disparate treatment of U.S. banks and foreign institutions by insurance giant American International Group (AIG). In March, Bachus urged Financial Services Committee Chairman Barney Frank to convene hearings in order to obtain facts and fully understand the consequences of AIG's bailout on U.S. banks. Since March, Bachus has also asked Secretary Geithner for information on why U.S. banks are being asked to take haircuts, while foreign and domestic counterparties were made whole.

In the letter Bachus said, "In response to my questions on this issue during a March 24, 2009 hearing, you testified that AIG ‘fully met its obligations' to its counterparties. That overlooks the fact that U.S. banks who are creditors of AIG have received far less favorable treatment than has been afforded to domestic and foreign counterparties. In many cases, these U.S. banks are not only being asked to accept deep discounts, but AIG has yet to fulfill its contractual obligations under existing debt instruments. It is imperative to have an understanding of the impact of AIG's bailout on U.S. banks, especially given recent revelations of the flawed process pursued by the Federal Reserve Bank of New York in the AIG bailout."

Bachus cites the findings of the November 17th report by the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) that the actions by the Federal Reserve Bank of New York, under the leadership of then-President Geithner, resulted in a ‘backdoor bailout' of AIG's foreign and domestic counterparties.

"While foreign and domestic counterparties were made whole, AIG has been attempting to force many of its creditors that are U.S. banks to accept severe reductions in the debt owed to them. I am told in some cases that these U.S. banks are being asked to accept reductions of over 70% of the total debt owed to them. This disparity in treatment between foreign banks and U.S. banks is troubling," Bachus said.

"In light of legislation proposed by the Obama Administration and under consideration in Congress to create a resolution fund that will codify AIG-style bailouts in the future; it is important that Congress and the American people fully understand the consequences of AIG's bailout before enacting that process into law," Bachus said.

Specifically, Bachus requested the following information: the extent to which AIG and its subsidiaries fully or partially met their obligations to creditors that are U.S. banks; the number of U.S. banks that are creditors of AIG or its real estate subsidiaries that received TARP money; of these banks, the number that have failed within the past year; the amount of these banks' exposure to AIG; and the names of all AIG subsidiaries that had relationships with small regional banks.

Click here to view a copy of the letter.

NOTE: Ranking Member Spencer Bachus sent this letter to Chairman Barney Frank on March 25, 2009 urging Committee hearings to examine the disparity among AIG's counterparty payments.

Bachus also questioned Secretary Geithner during Committee hearings on March 24th and 26th , highlights from both hearings follow:

From March 24th hearing:

GEITHNER: So AIG was able to, as a result of the intervention -- to meet a full range of its obligations as a large complex financial institution.

BACHUS: Well, I'm talking about -- I'm just saying, they were paid 100 percent of what they were owed. Is that.

GEITHNER: AIG was able to meet its commitments, and met its commitments.

BACHUS: At 100 percent.

GEITHNER: It fully met its obligations, yes.

BACHUS: Sure. Fully met its obligations.

GEITHNER: Yes.

BACHUS: Well, my question to you -- and I'm not -- was there any discussion over a haircut or a 95 percent -- taking 95 percent or 90 percent as full payment?

GEITHNER: We explored at that time every possible means to reduce the drain on their resources.

From March 26, 2009 hearing:

Mr. BACHUS. Now they have obligations to a lot of American banks. In fact, you know, I said pensioners and retirees, you added municipalities and banks. How about the U.S. banks that their obligation of AIG, they're in default today, they were in default then?

Secretary GEITHNER. Mr. Bachus, I heard your question, and I need to understand a little more the precise examples you're referring to. I would be happy to look at that and get back to you.

Mr. BACHUS. Sure. Well-

Secretary GEITHNER. I understand if it seems unfair, we'll have to fix it, but I want to take a more careful look at what you're suggesting.

Mr. BACHUS. Sure. And what I'm talking about, let me tell you. What was paid off dollar-for-dollar were these risky credit default swaps agreement in most cases, which were the financial products subsidiary that wrote those. That's what you paid off dollar-for-dollar. What is still not being paid off is the more traditional loans

to AIG of actual money. And do you not-do you understand my concern?

Secretary GEITHNER. I completely understand your concern, but I want to look in more detail at the precise examples you're speaking of. Because they don't-I need to understand those better, and I'll give you a thoughtful response.

Mr. BACHUS. Yes. And I'm talking about U.S. banks, federally insured U.S. banks, that made secured loans to a subsidiary of AIG, and they're being told-they're being offered 20 or 30 cents on the dollar, U.S. companies doing business in Florida, Alabama, Tennessee.

Secretary GEITHNER. As I said, I'll work with the chairman. We'll come back to you and give you a detailed response